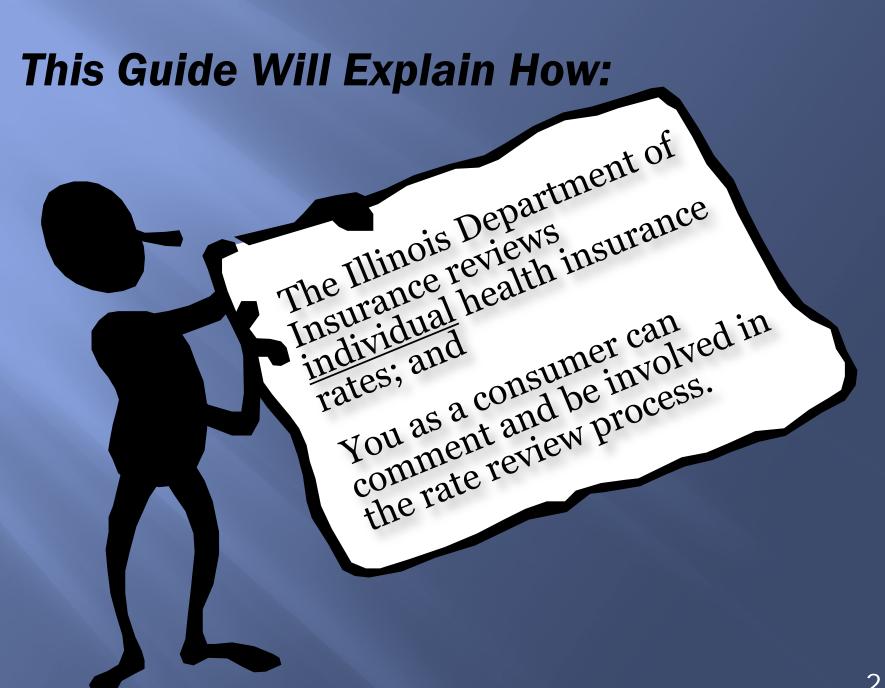
A CONSUMER'S GUIDE TO RATE REVIEW

SEPTEMBER 2012





Presented by the Illinois Department of Insurance Andrew Boron, Director



Let's Get Started...the basics

Before we can discuss the rate review process, it will first be helpful to hit some basics.

What is a Base Rate?

A base rate is the starting point to determine your cost of coverage before your insurance company considers other factors such as administrative and reserving costs.

What is a Premium?

A premium is the specific amount you pay for health insurance. Your actual premium will be higher or lower than the base rate, depending on several factors.

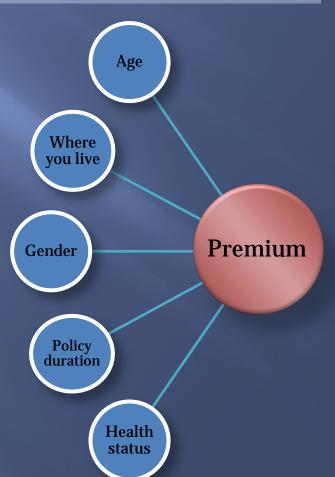




Let's Get Started...the basics

Your Premium May Be Higher or Lower Than the Base Rate, Because of Your:



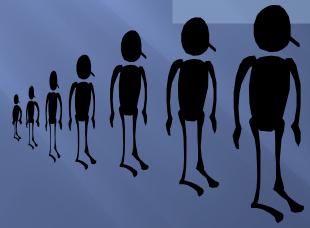




Let's Get Started...the basics

Your Premium *also* considers expected costs for:

- ✓ Claims for medical care (hospitals, doctors, pharmacy, labs, and other patient care)
- ✓Insurer administrative costs (e.g. claims processing, care management programs, staff salaries, marketing costs and taxes)
- ✓ Insurer's profits
- **√** Reserves to cover higher than expected claims





Why do my rates increase...the cost

Now that we have touched on the basics, the next question is "Why do my rates increase?"



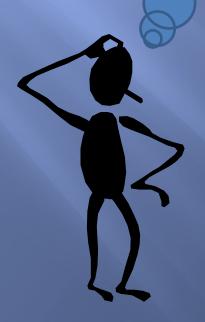
There can be many reasons that your rates can increase. The following are a few common reasons:

- ✓ Increase in usage of medical care and services
- √ Higher drug costs and more prescriptions
- ✓ Increase in new treatment and technology
- √ Aging population
- **✓** Unhealthy lifestyles
- **✓ Treating the uninsured**

These higher health care claim costs are then reflected in the rates insurers charge for health insurance coverage.

Why do my rates increase...the cost

You may be wondering why your rates have gone up even though you and your covered family members are healthy and have had only minor claims.



...the answer:

You and your family are part of a "pool of risks". You pay a share of the pooled costs in exchange for getting the coverage you purchased.

The point of insurance is to share the cost of medical care among a larger group of people so that those with higher medical bills can still afford insurance.

Why do my rates increase...the cost

Why is my premium different from other individuals in my pool?

Starting with the base, your cost is further impacted by other rating factors.

As earlier discussed, a number of factors including your age, where you live and you health can affect what you pay. For example, medical care can be more expensive in certain areas and in larger cities. So people in Chicago can expect to pay more than those living in other parts of Illinois. Also, as people age they normally use more medical care, which also adds to the cost of your health care premium.

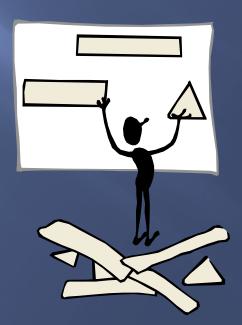




Rate Review in Illinois...nuts & bolts

Which Health Insurance Rates Does the Department Review?

Perhaps the best way to describe which health rates must be reviewed by the Department prior to using them is to describe those that do not...





Rate Review in Illinois...nuts & bolts

The following types of rates are not subject to review:

The following types of plans do <u>not</u> have to file their rates before using them in the State of Illinois:

- Accident insurance and disability income insurance, or any combination of the two
- Liability insurance, including general liability insurance and automobile liability insurance
- A supplement to liability insurance
- Workers' compensation
- Automobile medical payment insurance
- Other similar insurance coverage where benefits for medical care are secondary to other insurance benefits



Rate Review in Illinois...nuts & bolts

For all other health insurance products, an insurer selling health insurance in Illinois must submit all health rate filings to the Department prior to using them.

This includes changes in rates for existing products as well as rates for new products.





An insurance company must submit their request to file both new and renewal rates to the Illinois Department of Insurance.



- Experts within the Department review the filing to ensure that it is complete, accurate and consistent.
- If information is missing or incomplete, the Department requests the missing information from the insurance carrier.
- The rates are then further reviewed and posted on the Department's website.



If the proposed rate increase is 10% or more, Department is required to perform a more in-depth review to determine whether such rates are "unreasonable".

Under the federal Affordable Care Act, rate increases which exceed 10% may be deemed unreasonable if the insurer would be spending a low percentage of premium dollars on actual medical care and quality improvements, and if the rate filing relied on data of a questionable nature.



- Starting September 2011, insurers proposing rate increases for an individual policy of an average of 10% or more must submit a "preliminary justification" as part of its rate filing to the Department and to the U.S. Department of Health and Human Services (HHS).
- A "preliminary justification" is a standardized form for consumers to see the insurance carrier's reasons for a proposed rate increase. It is posted on www.healthcare.gov.



Where a rate increase is 10% or more, the Department considers many factors, including:

Enrollment patterns

Medical usage trends

Administrative expenses

Profits

Reserves

Benefit changes

The company's history of rate changes

Medical Loss Ratio*

Consumer comments submitted to the Department

Other factors driving the rate increase

Recent and projected future costs of medical care and prescription drugs



NOTE - The Department does <u>not</u> have the authority to approve or disapprove proposed rate increases. Therefore, it is possible that a rate increase may go into effect even if the Department determines that the rate increase is "unreasonable".

Rate Review in Illinois...medical loss ratio * (MLR)

- MLR refers to the portion of insurance premiums an insurer spends on health care and activities that improve health care quality.
- The new health reform law requires that a minimum of 80% (in the individual and small group market) and 85% (in the large group market) of each premium dollar is spent on health care services and health care quality improvement and not on company overhead and administrative costs.
- Starting in 2012, an insurer not meeting the required MLR percentage must give rebates to people enrolled in the plan or the employer that purchased it.



- The Department provides its final determination on the reasonableness of an increase of 10% or more to the insurance company and to HHS.
- A link is provided on the Department's website to this information on www.healthcare.gov.



- When the Department has issued its final determination, summary information on the rate filing is posted to the chart of proposed rate changes on our website at http://insurance.illinois.gov/hiric/rate-filings.asp
- Note: a rate change that is posted is always an <u>average</u> rate, and your individual premium may be different.

Rate Review in Illinois Work ... your role

Your Participation in the Rate Review Process is IMPORTANT:



The Department accepts <u>questions</u>, <u>concerns and comments</u> related to rate filings. When submitting your comments, please identify both the company and the policy number. The Department cannot respond to submitted comments but will respond to questions consistent with our <u>Comment Policy</u>.

Federal Grants and Reports...

- As part of the federal Affordable Care Act (ACA), the federal government has provided grant funds to Illinois and other states to enhance the rate review process and increase consumer education and outreach.
- Grant requests and quarterly reports submitted by the Department to the federal government (HHS) are available on our website: http://insurance.illinois.gov/hiric/premium-rate.asp

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ADDITIONAL FEEDBACK ON THE RATE REVIEW PROCESS IN ILLINOIS?

The Department of Insurance welcomes comments at any time. Feedback can be sent to

doi.healthreform@illinois.gov





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